Stingray posts strong first public earnings as it charts expansion plans

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Stingray Digital Group Inc. reported earnings as a public company for the first time on Wednesday, revealing a sharp increase in revenue and an ambitious international acquisition program aiming to reach 400 million subscribers worldwide by 2020.

The Montreal-based company posted revenue of $20-million for the quarter, an increase of 27 per cent from a year earlier. Although it marked a net loss of $1.7-million, mainly a result of costs associated with its May IPO, on an adjusted basis the company had a net income of $4.8-million, an increase of 33 per cent from 2014 and representing earnings per share of 12 cents.


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“Clearly, we have started our new fiscal year on a solid note. Acquisitions, expansion in international markets and the launch of new products have enabled us to achieve record results,” chief executive officer Eric Boyko said in the earnings release.

The business-to-business music provider and media-solutions company probably won’t ring a bell for most end consumers, who more easily recall names such as Spotify and Apple Music. Stingray is the go-to music streaming service for cable companies, broadcasters and businesses, providing everything from paid music channels on TV to the background music you hear while grocery shopping at Sobeys. It is best known in Canada for its commercial-free music streaming service Galaxie, now called Stingray Music.

In Canada, the company has reached a saturation point, and it is clear its sights are now set firmly on global markets. “We are highly penetrated in Canada; every TV consumer in Canada receives our product,” Mr. Boyko said in an interview. “So, international markets are very important for us.”

“We see organic growth of 0 to 2 per cent in Canada and the U.S. on the TV side and 5 per cent on the commercial business side. For the rest of the world, we see growth of 10 per cent,” he added.

It’s a growth built on acquiring contracts and subscribers. “Organic growth and acquisitions for us is almost one and the same,” said Mathieu Péloquin, senior vice-president of marketing and communications. “We buy incumbents before their contracts with major TV operators come up for renewal and it’s a way for us to lock in those subscribers. Our consolidation strategy is definitely a priority because it allows us to move quickly in building revenue and growth.”

And right now it has the money to do so. The company recently secured a new $100-million credit facility and enjoyed a 60-per-cent increase in free cash flow this quarter of $5.3-million – and it’s looking to spend.

“We plan to invest about $50-million a year in acquisitions, to generate between $5- [million] to $10-million of extra EBITDA a year,” Mr. Boyko said. “Right now we have deals we are looking at in the U.S., in Mexico, in Brazil, in South Africa, one in Switzerland, two in Asia and one in Australia.” (EBITDA is earnings before interest, taxes, depreciation and amortization.)

For its first acquisition as a public company, Stingray spent $8-million on three music channels from the Netherlands’ Brava Group, which added approximately 35 million subscribers to the company for a total of 135 million subscribers. The company is also in early talks to become a music provider for DirecTV, which was recently acquired by existing Stingray customer AT&T.

While the music-streaming space has become increasingly crowded with new entrants over the past few years, Stingray occupies a niche in keeping businesses as its core clientele. At the same time, it’s doing a balancing act in trying to diversify its products to reach the end user.

The company is rolling out a new version of its mobile music app that features linear music channels rather than the on-demand and interactive model other streaming services use. “We found that 87 per cent of the people are happy with a linear channel because that’s how they discover the next song. The other essentially 10 per cent are music aficionados who need Spotify and Google Play,” Mr. Boyko said. “Our differentiation is that we are about content curation instead.”

Stingray stock, which was priced at $6.25 a share on the Toronto Stock Exchange when it started trading on June 3, initially climbed above $8, but has since fallen and closed Wednesday down 1.29 per cent.

- RAY.A-TStingray Digital Group Inc

LATEST PRICE$6.60
+0.10
(+1.54%)

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